



Ngaka Modiri Molema District Municipality
Financial statements
for the year ended 30 June 2015

Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2015

General Information

| | |
|--|---|
| Legal form of entity | District Municipality |
| Nature of business and principal activities | Service delivery |
| Jurisdiction | Ngaka Modiri Molema District Municipality (NMMDM) is one of the four districts of North West province. |
| Mayoral committee | |
| Executive Mayor | CLLR TJ Makolomakwa |
| Councillors | CLLR E Landsman (Chief Whip) CLLR YF Sechoaro (Speaker) CLLR A Magagane (MMC: Project Management Unit) CLLR B Loeto (MMC: Special projects) CLLR O Seabelo (MMC: Finance) CLLR P Kwenaita (MMC: Health and Safety) CLLR N Mokoto (MMC: Corporate Support) CLLR P Malebelela (MMC: Infrastructure & Maintenance) CLLR OJ Tselapedi (MPAC Chairperson) CLLR M Molefe (MMC: District Economic Growth) |
| Accounting Officer | LA Gopane |
| Chief Finance Officer (CFO) | PB Senna |
| Registered office | Cnr. Carrington Str and 1st Avenue Industrial Site Mahikeng 2745 |
| Postal address | Private Bag X2165 Mahikeng 2745 |
| Auditors | Auditor General South Africa |
| Legislation | Municipal Finance Management Act (MFMA) Municipal Systems Act Municipal Structures Act Division of Revenue Act (DORA) |

Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2015

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The reports and statements set out below comprise the financial statements presented to the Provincial Legislature:

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Abbreviations

| | |
|-------|---|
| COID | Compensation for Occupational Injuries and Diseases |
| DBSA | Development Bank of South Africa |
| GRAP | Generally Recognised Accounting Practice |
| IAS | International Accounting Standards |
| IMFO | Institute of Municipal Finance Officers |
| IPSAS | International Public Sector Accounting Standards |
| ME's | Municipal Entities |
| MEC | Member of the Executive Council |
| MFMA | Municipal Finance Management Act |

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Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the financial statements and will be given unrestricted access to all financial records and related data.

The financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

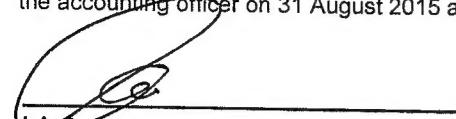
The financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2016 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The financial statements set out on pages 4 to 50, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2015 and were signed on its behalf by:



J.A. Gopane
Accounting Officer

Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2015

Statement of Financial Position as at 30 June 2015

Figures in Rand

| | Note(s) | 2015 | 2014 |
|---|---------|----------------------|----------------------|
| Assets | | | |
| Current Assets | | | |
| Inventories | 6 | 30 485 891 | 23 408 683 |
| Receivables from exchange transactions | 7 | 10 619 195 | 12 333 007 |
| VAT receivable | 8 | 161 378 714 | 155 232 919 |
| Cash and cash equivalents | 9 | 112 388 961 | 157 081 268 |
| | | 314 872 761 | 348 055 877 |
| Non-Current Assets | | | |
| Property, plant and equipment | 3 | 4 822 840 596 | 4 923 441 715 |
| Intangible assets | 4 | 50 267 | 402 887 |
| | | 4 822 890 863 | 4 923 844 602 |
| Non-Current Assets | | | |
| Current Assets | | 4 822 890 863 | 4 923 844 602 |
| Total Assets | | 314 872 761 | 348 055 877 |
| | | 5 137 763 624 | 5 271 900 479 |
| Liabilities | | | |
| Current Liabilities | | | |
| Other financial liabilities | 11 | 8 473 364 | 49 708 173 |
| Payables from exchange transactions | 14 | 465 111 271 | 471 850 570 |
| Unspent conditional grants and receipts | 10 | 258 686 995 | 127 923 450 |
| Provisions | 12 | 3 687 000 | 389 000 |
| Bank overdraft | 9 | 21 942 545 | 15 894 785 |
| | | 757 901 175 | 665 765 978 |
| Non-Current Liabilities | | | |
| Other financial liabilities | 11 | - | 48 694 626 |
| Provisions | 12 | 13 103 000 | 12 829 000 |
| Other liability | 13 | 124 505 180 | - |
| | | 137 608 180 | 61 523 626 |
| Non-Current Liabilities | | | |
| Current Liabilities | | 137 608 180 | 61 523 626 |
| Total Liabilities | | 757 901 175 | 665 765 978 |
| | | 895 509 355 | 727 289 604 |
| Assets | | 5 137 763 624 | 5 271 900 479 |
| Liabilities | | (895 509 355) | (727 289 604) |
| Net Assets | | 4 242 254 269 | 4 544 610 875 |
| Accumulated surplus | | | |
| | | 4 242 254 269 | 4 544 610 875 |

Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2015

Statement of Financial Performance

Figures in Rand

| | Note(s) | 2015 | 2014 |
|---|---------|----------------------|----------------------|
| Revenue | | | |
| Revenue from exchange transactions | | | |
| Insurance claims | 16 | 238 248 | 668 487 |
| Other revenue | 16 | 155 169 | 357 211 |
| Sale of water | 16 | 842 313 | 986 427 |
| Other income | | 138 045 | 325 457 |
| Sundry income sewer | 16 | 258 244 | 296 625 |
| Interest earned | 21 | 1 935 746 | 1 103 756 |
| Total revenue from exchange transactions | | 3 567 765 | 3 737 963 |
| Revenue from non-exchange transactions | | | |
| Transfer revenue | | | |
| Government grants & subsidies | 17 | 658 851 884 | 771 902 903 |
| | | 3 567 765 | 3 737 963 |
| Total revenue | 16 | 658 851 884 | 771 902 903 |
| | | 662 419 649 | 775 640 866 |
| Expenditure | | | |
| Employee related costs | 19 | (281 909 737) | (245 843 706) |
| Remuneration of councillors | 20 | (8 049 349) | (15 608 899) |
| Depreciation and amortisation | 22 | (229 414 501) | (236 971 410) |
| Finance costs | 23 | (7 166 286) | (7 102 992) |
| Lease rentals on operating lease | | (823 560) | (804 278) |
| Repairs and maintenance | 24 | (43 006 157) | (34 474 807) |
| Contracted services | 25 | (31 872 156) | (11 874 216) |
| Transfers and Subsidies | 26 | (258 256 689) | (134 770 243) |
| General Expenses | 18 | (113 271 024) | (123 216 478) |
| Total expenditure | | (973 769 459) | (810 667 029) |
| Total revenue | | - | - |
| Total expenditure | | 662 419 649 | 775 640 866 |
| Operating deficit | | (973 769 459) | (810 667 029) |
| Gain/(Loss) on investments | | (311 349 810) | (35 026 163) |
| Deficit before taxation | | 4 987 554 | 4 689 318 |
| Taxation | | (306 362 256) | (30 336 845) |
| Deficit for the year | | (306 362 256) | (30 336 845) |

Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2015

Statement of Changes in Net Assets

| Figures in Rand | Accumulated surplus | Total net assets |
|---|------------------------|----------------------|
| Balance at 01 July 2013 | 4 574 947 718 | 4 574 947 718 |
| Changes in net assets | | |
| Surplus for the year | (30 336 843) | (30 336 843) |
| Total changes | (30 336 843) | (30 336 843) |
| Opening balance as previously reported | | |
| Adjustments | 4 544 610 875 | 4 544 610 875 |
| Correction of errors | 4 005 650 | 4 005 650 |
| Balance at 01 July 2014 as restated* | 4 548 616 525 | 4 548 616 525 |
| Changes in net assets | | |
| Surplus for the year | (306 362 256) | (306 362 256) |
| Total changes | (306 362 256) | (306 362 256) |
| Balance at 30 June 2015 | 4 242 254 269 | 4 242 254 269 |
| Note(s) | | |

Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2015

Cash Flow Statement

Figures in Rand

Note(s) 2015 2014

Cash flows from operating activities

Receipts

| | | |
|-----------------|--------------------|--------------------|
| Grants | 765 700 554 | 767 458 834 |
| Interest income | 1 935 746 | 1 103 756 |
| Other receipts | 1 632 019 | 2 634 207 |
| | 769 268 319 | 771 196 797 |

Payments

| | | |
|----------------|----------------------|----------------------|
| Employee costs | (288 678 086) | (256 967 605) |
| Suppliers | (439 272 199) | (234 188 193) |
| Finance costs | (7 166 286) | (7 102 992) |
| | (735 116 571) | (498 258 790) |

Total receipts

Total payments

Net cash flows from operating activities

27

34 151 748

272 938 007

Cash flows from investing activities

Purchase of property, plant and equipment

3

5 164 350

(140 946 074)

Purchase of other intangible assets

4

(126 730)

(319 350)

Movement on Investment

-

(11 646 838)

Net cash flows from investing activities

5 037 620

(152 912 262)

Cash flows from financing activities

Repayment of other financial liabilities

(89 929 435)

20 920 309

Net increase/(decrease) in cash and cash equivalents

Cash and cash equivalents at the beginning of the year

9

(50 740 067)

140 946 054

Cash and cash equivalents at the end of the year

141 186 483

240 409

90 446 416

141 186 483

Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2015

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|--------------------|-------------------|--------------------|------------------------------------|--|--|
| Statement of Financial Performance | | | | | | |
| Revenue | | | | | | |
| Revenue from exchange transactions | | | | | | |
| Fees earned | - | - | - | 238 248 | 238 248 | |
| Commissions received | - | - | - | 155 169 | 155 169 | |
| Discount received | - | - | - | 842 313 | 842 313 | |
| Other income | 29 949 353 | 33 035 540 | 62 984 893 | 138 045 | (62 846 848) | |
| Own funds | - | - | - | 258 244 | 258 244 | |
| Interest received - investment | 5 200 000 | - | 5 200 000 | 1 935 746 | (3 264 254) | Due to early termination of Momentum Endowment Policy |
| Total revenue from exchange transactions | 35 149 353 | 33 035 540 | 68 184 893 | 3 567 765 | (64 617 128) | |
| Revenue from non-exchange transactions | | | | | | |
| Transfer revenue | | | | | | |
| Government grants and subsidies | 792 516 000 | (2 856 446) | 789 659 554 | 658 851 884 | (130 807 670) | |
| 'Total revenue from exchange transactions' | 35 149 353 | 33 035 540 | 68 184 893 | 3 567 765 | (64 617 128) | |
| 'Total revenue from non-exchange transactions' | 792 516 000 | (2 856 446) | 789 659 554 | 658 851 884 | (130 807 670) | |
| Total revenue | 827 665 353 | 30 179 094 | 857 844 447 | 662 419 649 | (195 424 798) | |
| Expenditure | | | | | | |
| Personnel | (240 000 000) | (37 225 000) | (277 225 000) | (281 909 737) | (4 684 737) | Due to movement on long service award provision based on Actuarial valuation |
| Remuneration of councillors | (11 800 000) | (231 000) | (12 031 000) | (8 049 349) | 3 981 651 | |
| Depreciation and amortisation | (29 826 800) | (77 222 431) | (107 049 231) | (229 414 501) | (122 365 270) | Variance is due to restated PPE figures based on new unit rates applied for valuation. |

Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2015

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|--|----------------------|----------------------|----------------------|------------------------------------|--|---|
| Finance costs | (1 000 000) | (2 000 000) | (3 000 000) | (7 166 286) | (4 166 286) | Due to early termination of Momentum Endowment Policy pledged against the Momentum loan |
| Lease rentals on operating lease | - | - | - | (823 560) | (823 560) | |
| Bulk purchases | (17 300 000) | 7 300 000 | (10 000 000) | - | 10 000 000 | |
| Repairs and maintenance | - | (44 154 803) | (44 154 803) | (43 006 157) | 1 148 646 | |
| Contracted Services | (13 750 000) | (3 645 000) | (17 395 000) | (31 872 156) | (14 477 156) | Emergency contracts due to water supply shortage |
| Transfers and subsidies | (17 351 000) | (200 554) | (17 551 554) | (258 256 689) | (240 705 135) | Emergency subsidies due to water supply shortage |
| General expenses | (124 207 353) | 30 585 000 | (93 622 353) | (113 271 025) | (19 648 672) | Due to increased legal costs, sceptic tanks services and water tests. |
| Total expenditure | (455 235 153) | (126 793 788) | (582 028 941) | (973 769 460) | (391 740 519) | |
| Operating deficit | 827 665 353 | 30 179 094 | 857 844 447 | 662 419 649 | (195 424 798) | |
| Income from equity accounted investments (Filtered) | (455 235 153) | (126 793 788) | (582 028 941) | (973 769 460) | (391 740 519) | |
| | 372 430 200 | (96 614 694) | 275 815 506 | (311 349 811) | (587 165 317) | |
| Deficit before taxation | 372 430 200 | (96 614 694) | 275 815 506 | (311 349 811) | 4 987 554 | 4 987 554 |
| Surplus before taxation | 372 430 200 | (96 614 694) | 275 815 506 | (306 362 257) | (582 177 763) | |
| Taxation | - | - | - | - | - | |
| Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement | 372 430 200 | (96 614 694) | 275 815 506 | (306 362 257) | (582 177 763) | |

The reasons for the above differences are based on the actual expenditure and the final adjustment budget. The final approved budget is available at the municipal registered office should any person so wish to see the reasons for the adjustment and the original budget.

Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1. Presentation of Financial Statements

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. Significant judgements include:

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 12 - Provisions.

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.2 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1.2 Property, plant and equipment (continued)

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

| Item | Average useful life |
|---------------------------|---------------------|
| Infrastructure | |
| • Roads and maintenance | 10 - 40 |
| Community | |
| • Buildings | 30 |
| • Recreational facilities | 30 |
| • Security | 30 |
| • Halls | 30 |
| • Libraries | 30 |
| • Park and gardens | 30 |
| • Other assets | 15 - 30 |

Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1.2 Property, plant and equipment (continued)

Other property, plant and equipment

| | |
|--------------------------|--------|
| • Office furniture | 5 - 7 |
| • Furniture and Fittings | 5 - 10 |
| • Emergency equipment | 5 |
| • IT Equipment | 5 |
| • Motor vehicles | 7 - 10 |

1.3 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

| Item | Useful life |
|--------------------------|-------------|
| Website | 5 |
| Computer software, other | 5 |

Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1.4 Financial instruments

Initial recognition

Financial instruments are initially recognised at fair value.

Subsequent measurement

Financial Assets are categorised according to their nature as either financial assets at fair value through profit or loss, held-to-maturity, loans and receivables, or available for sale. Financial liabilities are categorised as either at fair value through profit or loss or financial liabilities carried at amortised cost ("other"). The subsequent measurement of financial assets and liabilities depends on this categorisation and, in the absence of an approved GRAP Standard on Financial Instruments, is in accordance with IAS 39.

Investments

Investments, which include listed government bonds, unlisted municipal bonds, fixed deposits and short-term deposits invested in registered commercial banks, are categorised as either held-to-maturity where the criteria for that categorisation are met, or as loans and receivables, and are measured at amortised cost. Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified. Impairments are calculated as being the difference between the carrying amount and the present value of the expected future cash flows flowing from the instrument. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

Trade and other receivables

Trade and other receivables are categorised as financial assets: loans and receivables and are initially recognised at fair value and subsequently carried at amortised cost. Amortised cost refers to the initial carrying amount, plus interest, less repayments and impairments. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. Impairments are determined by discounting expected future cash flows to their present value. Amounts that are receivable within 12 months from the reporting date are classified as current.

An impairment of trade receivables is accounted for by reducing the carrying amount of trade receivables through the use of an allowance account, and the amount of the loss is recognised in the Statement of Financial Performance within operating expenses. When a trade receivable is uncollectible, it is written off. Subsequent recoveries of amounts previously written off are credited against operating expenses in the Statement of Financial Performance.

Trade payables and borrowings

Financial liabilities consist of trade payables and borrowings. They are categorised as financial liabilities held at amortised cost, are initially recognised at fair value and subsequently measured at amortised cost which is the initial carrying amount, less repayments, plus interest.

Cash and cash equivalents

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities: other financial liabilities carried at amortised cost.

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1.4 Financial instruments (continued)

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
 - receive cash or another financial asset from another entity; or
 - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Ngaka Modiri Molema District Municipality

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1.4 Financial instruments (continued)

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

1.5 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.6 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for:

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Ngaka Modiri Molema District Municipality

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Accounting Policies

1.6 Inventories (continued)

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.7 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

1.8 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

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Accounting Policies

1.8 Impairment of non-cash-generating assets (continued)

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

1.9 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

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Accounting Policies

1.9 Employee benefits (continued)

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

1.10 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Ngaka Modiri Molema District Municipality

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Accounting Policies

1.10 Provisions and contingencies (continued)

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of a activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 29.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

1.11 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

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Accounting Policies

1.12 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

1.13 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use of sale.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.14 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.15 Unauthorised expenditure

Unauthorised expenditure means:

Ngaka Modiri Molema District Municipality

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Accounting Policies

1.15 Unauthorised expenditure (continued)

- overspending of the total amount appropriated in the municipality's approved budget;
- overspending of the total amount appropriated for a vote in the approved budget;
- expenditure from a vote unrelated to the department or functional area covered by the vote;
- expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
- spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of "allocation" otherwise than in accordance with any conditions of the allocation; or
- a grant by the municipality otherwise than in accordance with this Act;

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.16 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.17 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of this Act, and which has not been condoned in terms of section 170;
- expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;
- expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or
- expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law,
- but excludes expenditure by a municipality which falls within the definition of "unauthorised expenditure";

Irregular expenditure that was incurred and identified during the current financial year and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Ngaka Modiri Molema District Municipality

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Accounting Policies

1.17 Irregular expenditure (continued)

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.18 Use of estimates

The preparation of financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the relevant sections of the financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.19 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.20 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2014-07-01 to 2015-06-30.

The budget for the economic entity includes all the entities approved budgets under its control.

The financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.21 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.22 Value Added Tax

The municipality is registered for VAT on the payment basis.

Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand

2015 2014

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand

3. Property, plant and equipment

| | 2015 | 2014 | | |
|-------------------------------------|------------------------|---|----------------------|---|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Cost / Valuation | Accumulated depreciation and accumulated impairment |
| Land | 3 914 628 | - | 3 914 628 | - |
| Buildings | 237 574 604 | (120 120 881) | 117 453 723 | 231 113 246 |
| Infrastructure | 7 058 739 845 | (2 435 826 111) | 4 622 913 734 | 6 939 682 195 |
| Other property, plant and equipment | 114 345 487 | (35 786 976) | 78 558 511 | 111 051 113 |
| Total | 7 414 574 564 | (2 591 733 968) | 4 822 840 596 | 7 285 761 182 |
| | (2 362 319 467) | 4 923 441 715 | | |

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

4. Intangible assets

| | 2015 | 2014 | | |
|-------------------|------------------|---|------------------|---|
| | Cost / Valuation | Accumulated amortisation and accumulated impairment | Cost / Valuation | Accumulated amortisation and accumulated impairment |
| Computer software | 126 730 | - | 126 730 | 479 350 |
| Website | - | (76 463) | (76 463) | - |
| Total | 126 730 | (76 463) | 50 267 | 479 350 |
| | | | | (76 463) |
| | | | | 402 887 |

5. Other financial assets

Residual interest at cost

Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

| Figures in Rand | 2015 | 2014 |
|--|-------------------|-------------------|
| 5. Other financial assets (continued) | | |
| Momentum investment | 44 783 959 | 33 192 725 |
| ABSA investment | 1 616 444 | 1 560 840 |
| | 46 400 403 | 34 753 565 |
| | 46 400 403 | 34 753 565 |
| | | |
| 6. Inventories | | |
| Consumable stores | 4 422 458 | 6 365 605 |
| Maintenance materials | 26 063 433 | 17 043 078 |
| | 30 485 891 | 23 408 683 |
| | | |
| | | |
| | | |

Consumables consists of stationery and fuel

Maintenance materials consists of road signs and water network parts.

Inventory pledged as security

No Inventory was pledged as security for the 2014/2015 financial year.

Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand

2015 2014

7. Receivables from exchange transactions

| | | |
|---------------|-------------------|-------------------|
| Other debtors | 3 357 697 | 2 769 824 |
| Prepayments | 656 277 | 2 950 724 |
| LED Project | 6 156 433 | 6 156 433 |
| Other debtors | 448 788 | 456 026 |
| | 10 619 195 | 12 333 007 |

Trade and other receivables pledged as security

No Trade and other receivables were pledged as security.

8. VAT receivable

| | | |
|-----|-------------|-------------|
| VAT | 161 378 714 | 155 232 919 |
|-----|-------------|-------------|

9. Cash and cash equivalents

Cash and cash equivalents consist of:

| | | |
|---------------------|-------------------|--------------------|
| Bank balances | 7 094 556 | 6 997 671 |
| Short-term deposits | 105 294 405 | 150 083 597 |
| Bank overdraft | (21 942 545) | (15 894 785) |
| | 90 446 416 | 141 186 483 |

| | | |
|---------------------|-------------------|--------------------|
| Current assets | 112 388 961 | 157 081 268 |
| Current liabilities | (21 942 545) | (15 894 785) |
| | 90 446 416 | 141 186 483 |

The municipality had the following bank accounts

| Account number / description | Bank statement balances | | | Cash book balances | | |
|--------------------------------------|-------------------------|------------------|----------------|---------------------|------------------|----------------|
| | 30 June 2015 | 30 June 2014 | 30 June 2013 | 30 June 2015 | 30 June 2014 | 30 June 2013 |
| ABASA 3: Account No 160432-2201-01 | 248 463 | 236 958 | 226 958 | 248 463 | 236 959 | 226 738 |
| FNB: Account number - 623-2461-9975 | 27 682 | 1 105 | 74 136 | 27 682 | 1 105 | 325 232 |
| FNB: Account number - 623-4837-7195 | 50 734 | 50 781 | 1 003 | 50 734 | 50 782 | - |
| FNB: Account number - 623-2792-9735 | 53 046 | 82 248 | 30 470 | 6 718 287 | (261 151) | (312 929) |
| FNB: Account number - 623-2461-9975 | - | - | 1 366 | - | - | 1 368 |
| FNB: Account number - 529-100-86-795 | 4 882 239 | 4 202 151 | - | (21 942 545) | 3 530 156 | - |
| FNB: Account number - 624-457-097-46 | 1 000 | 317 674 | - | 1 000 | 317 718 | - |
| Total | 5 263 164 | 4 890 917 | 333 933 | (14 896 379) | 3 875 569 | 240 409 |

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10. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

| | | |
|---|--------------------|--------------------|
| Premier's Legacy Grant | 6 931 206 | - |
| Municipal Infrastructure Grant | 120 540 841 | - |
| Municipal Systems Improvement Grant | 148 363 | - |
| Department of Water Affairs and Forestry (WSOG) | 5 192 736 | 5 192 736 |
| Rural Household Infrastructure Grant | 4 000 000 | 4 000 000 |
| Disaster Management Grant | 10 952 329 | 10 472 329 |
| Provincial Infrastructure Grant | 14 006 394 | 14 006 394 |
| Rural Roads Assessment Management | 679 237 | 679 237 |
| EPWP Grant | 2 466 292 | - |
| Popo Molefe Hall | 4 509 794 | 4 509 794 |
| Bucket Eradication | 2 831 076 | 2 831 076 |
| DPLG Provincial Simulation | 400 000 | - |
| DPLG Fire Engines | 4 200 000 | - |
| SETA | 1 508 651 | 1 308 096 |
| DPLG | 19 024 085 | 19 024 085 |
| PLGH | 56 000 000 | 56 000 000 |
| RRAM | 531 976 | 531 976 |
| MWIG | 4 764 017 | 9 367 726 |
| | 258 686 997 | 127 923 449 |

The nature and extent of government grants recognised in the financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

11. Loans

At amortised cost

| | | |
|---|------------------|-------------------|
| DBSA loan | 8 473 364 | 67 606 493 |
| Capital shall be repaid in full on or before 31 July 2015 and the interest shall be capitalised and be repaid over five (5) years. | | |
| Capital loan period: 2 years or before 30 June 2013 (which occurs first) from date of first disbursement. | | |
| Interest rate: base 2 year swap rate plus 1.30% | | |
| Momentum loan | - | 30 796 306 |
| The current loan interest rate is set at 1,00% above the South African Reserve Bank's prime lending rate. The current interest rate applicable to this loan will thus be 10,00% per year and will change in line with any prime rate changes. | | |
| Loan will be repaid in monthly installments of R 5 000 000. | | |
| | 8 473 364 | 98 402 799 |

Total other financial liabilities

Non-current liabilities

| | | |
|-------------------|---|------------|
| At amortised cost | - | 48 694 626 |
|-------------------|---|------------|

Current liabilities

| | | |
|-------------------|------------------|-------------------|
| At amortised cost | 8 473 364 | 49 708 173 |
|-------------------|------------------|-------------------|

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12. Provisions

Reconciliation of provisions - 2015

| | Opening Balance | Additions | Total |
|--------------------|-----------------|-----------|------------|
| Long service award | 13 218 000 | 3 572 000 | 16 790 000 |

Reconciliation of provisions - 2014

| | Opening Balance | Additions | Total |
|-------------------------|-------------------|-------------------|------------|
| Long service award | - | 13 218 000 | 13 218 000 |
| Non-current liabilities | 13 103 000 | 12 829 000 | |
| Current liabilities | 3 687 000 | 389 000 | |
| | 16 790 000 | 13 218 000 | |

Long Service Award

The municipality operates an unfunded defined benefit plan for all its employees. Under the plan, a Long-service Award is payable to employees after 10 years of continuous service, and every 5 years of continuous service from 10 years of service to 45 years of service. The provision is an estimate of the long service based on historical staff turnover. Additional cash/gifts are awarded to employees for levels of past service per the LSA policy.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried at 30 June 2015 by Mr Neil Fourie, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

| | |
|-----------------------------|-------|
| Discount rate | 7.96% |
| Consumer Price Inflation | 6.33% |
| Normal Salary Increase | 7.33% |
| Net Effective Discount Rate | 0.59% |

Movements in the present value of the Defined Benefit Obligation were as follows:

| | | |
|--|-------------------|-------------------|
| Balance at the beginning of the year | 13 218 000 | - |
| Current service cost | 1 866 000 | 13 218 000 |
| Interest cost | 1 111 000 | - |
| Actuarial losses / (gains) | 984 000 | - |
| Benefits paid | (389 000) | - |
| Present Value of Fund Obligation at the end of the Year | 16 790 000 | 13 218 000 |

The amount recognised in the Statement of Financial Position are as follows:

| | | |
|--|-------------------|-------------------|
| Non-current liabilities | 13 103 000 | 12 829 000 |
| Current liabilities | 3 687 000 | 389 000 |
| Present value of unfunded obligations | 16 790 000 | 13 218 000 |

The amount recognised in the Statement of Financial Performance are as follows:

| | | |
|----------------------|-----------|------------|
| Current service cost | 1 866 000 | 13 218 000 |
| Interest cost | 1 111 000 | - |

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|---|------------------|-------------------|
| 12. Provisions (continued) | | |
| Actuarial costs | 984 000 | - |
| Total Post-retirement Benefit included in Employee Related Costs | 3 961 000 | 13 218 000 |

13. Other liability

This liability relates to the Sedibeng Water overdue accounts which the municipality acknowledged and agreement was reached that repayment of a minimum of R10 million would commence from 1 July 2015 on receipt of equitable shares. The payable balance was then split between current and non-current with the assumption that three repayments of R10 million would occur when equitable share is received.

The condition of the agreement is that the municipality would continue to service monthly current account when its due at the end of each month.

Sedibeng Water

| | | |
|--|--------------------|----------|
| Current portion - included under trade creditors | 30 000 000 | - |
| Non-current portion | 124 505 180 | - |
| | 154 505 180 | - |

14. Payables from exchange transactions

| | | |
|-----------------------------|--------------------|--------------------|
| Trade creditors | 246 753 568 | 266 639 611 |
| Rentention fees | 78 241 574 | 78 241 574 |
| Leave accrual | 18 375 412 | 20 881 142 |
| Suspense control accounts | 25 023 416 | 12 737 934 |
| Unallocated deposits | 2 619 201 | 7 844 201 |
| Third party control account | 17 956 059 | 3 292 969 |
| Other Creditors | 69 163 421 | 67 573 591 |
| Bonus accrual | 6 978 623 | 14 639 549 |
| | 465 111 271 | 471 850 570 |

15. Financial instruments disclosure

Categories of financial instruments

2015

Financial assets

Financial liabilities

| | At fair value | Total |
|----------------|---------------|------------|
| Bank overdraft | 21 942 545 | 21 942 545 |

Derivative financial instruments and hedging information

The following information relates to derivative financial instruments included in other financial assets and other financial liabilities:

The carrying amount approximates the Fair Value because of the short maturity of these instruments

Long-term investments

The Fair Value of some Investments are estimated based on quoted market prices of those or similar investments. Unlisted Equity Investments are estimated using the discounted cash flow method.

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Financial instruments disclosure (continued)

Loan receivable/Payables

Interest-bearing Borrowings and Receivables are generally at interest rates in line with those currently available in the market on a floating-rate basis, and therefore the Fair Value of these Financial Assets and Liabilities closely approximates their carrying values. Fixed interest-rate instruments are fair valued based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Trade and Other Receivable/Payables

The Fair Value of Trade and Other Payables is estimated at the present value of future cash flows. The management of the municipality is of the opinion that the carrying value of Trade and Other Receivables recorded at amortised cost in the Annual Financial Statements approximate their fair values. The Fair Value of Trade Receivables were determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties as well as the current payment ratio's of the municipality's debtors.

Assumptions used in determining Fair Value of Financial Assets and Financial Liabilities

The table below analyses Financial Instruments carried at Fair Value at the end of the reporting period by the level of fair-value hierarchy as required by GRAP 104. The different levels are based on the extent to which quoted prices are used in the calculation of the Fair Value of the Financial Instruments. The levels have been defined as follows:

Level 1:-

Fair Values are based on quoted market prices (unadjusted) in active markets for an identical instrument.

Level 2:-

Fair Values are calculated using valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3:-

Fair Values are based on valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. Also, this category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

16. Revenue

| | | |
|--------------------------------|--------------------|--------------------|
| Insurance claims | 238 248 | 668 487 |
| Dividends received | 155 169 | 357 211 |
| Sale of water | 842 313 | 986 427 |
| Other income | 138 045 | 325 457 |
| Sundry Income Sewer | 258 244 | 296 625 |
| Interest received - investment | 1 935 746 | 1 103 756 |
| Government grants & subsidies | 658 851 884 | 771 902 903 |
| | 662 419 649 | 775 640 866 |

The amount included in revenue arising from exchanges of goods or services

are as follows:

| | | |
|--------------------------------|------------------|------------------|
| Insurance Claims | 238 248 | 668 487 |
| Other revenue | 155 169 | 357 211 |
| Sale Of Water | 842 313 | 986 427 |
| Other Income | 138 045 | 325 457 |
| Sundry income sewer | 258 244 | 296 625 |
| Interest received - investment | 1 935 746 | 1 103 756 |
| | 3 567 765 | 3 737 963 |

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16. Revenue (continued)

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue

Transfer revenue

Government grants & subsidies

658 851 884 771 902 903

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17. Government grants and subsidies

Operating grants

| | | |
|--|--------------------|--------------------|
| Equitable share | 444 828 000 | 426 496 000 |
| Department of Water Affairs and Forestry(WSOG) | - | 9 191 378 |
| Disaster Management Grant | 145 000 | 298 569 |
| Extended Public Works Programme (EPWP) | 675 709 | 1 000 000 |
| Financial Management Grant (FMG) | 1 250 000 | 1 250 000 |
| Municipal Systems Improvement Grant | 785 638 | 890 000 |
| | 447 684 347 | 439 125 947 |

Capital grants

| | | |
|---|--------------------|--------------------|
| Premier's Legacy Grant | 1 068 794 | 35 000 000 |
| Regional Bulk Infrastructure Grant | 23 914 876 | 24 419 442 |
| Rural Roads Assets Management | 2 775 000 | 1 453 024 |
| Department of Water Affairs and Forestry (ACIP) | 30 000 000 | 4 571 597 |
| Municipal Water Infrastructure Grant | 6 061 710 | 9 091 274 |
| Municipal Infrastructure Grant | 127 347 159 | 258 241 618 |
| Local Government | 20 000 000 | - |
| | 211 167 539 | 332 776 955 |
| | 658 851 886 | 771 902 902 |

Equitable share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members and to fund the operations of the municipality in accordance with the approved MTREF budget.

In terms of the constitution (DORA), this grant is used to subside the provision of basic service to indigent members of the community and fund the operations of the municipality in accordance with the approved council MTREF budget. An amount of R 37 184 140 was offset by National treasury due to the municipality not spending its MIG grant fully during 2012/2013.

Premier's Legacy Grant

| | | |
|---|------------------|--------------|
| Current-year receipts | 8 000 000 | 35 000 000 |
| Conditions met - transferred to revenue | (1 068 794) | (35 000 000) |
| | 6 931 206 | - |

Conditions met and transferred to revenue (see note 10).

Grants used to implement capital projects of sanitation in the Project Management Unit to assist with the backlog encountered by the municipality.

Municipal Infrastructure Grant

| | | |
|---|--------------------|---------------|
| Balance unspent at beginning of year | - | 12 924 618 |
| Conditions met - transferred to revenue | 247 888 000 | 245 317 000 |
| | (127 347 159) | (258 241 618) |
| | 120 540 841 | - |

Conditions met and transferred to revenue (see note 10).

The MIG is the grant that relates to specific projects in the municipality mainly water and sanitation projects and all the projects must be MIG related and captured in the Integrated Development Plan (IDP) and offset of R 37 184 140 was taken against equitable shares.

Municipal System Improvement Grant

| | | |
|-----------------------|---------|---------|
| Current-year receipts | 934 000 | 890 000 |
|-----------------------|---------|---------|

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| | 2015 | 2014 |
|--|----------------|-----------|
| 17. Government grants and subsidies (continued) | | |
| Conditions met - transferred to revenue | (785 638) | (890 000) |
| | 148 362 | - |

Conditions met and transferred to revenue (see note 10).

This grant focus on the IDP programmes that may include IDP forum and public participation for projects relating to the Budget to be implemented by the municipality.

Department of Water Affairs and Forestry

| | | |
|---|------------------|------------------|
| Balance unspent at beginning of year | 5 192 736 | 384 114 |
| Conditions met - transferred to revenue | - | 14 000 000 |
| | - | (9 191 378) |
| | 5 192 736 | 5 192 736 |

Conditions still to be met - remain liabilities (see note 10).

The unspent portion of the grant was calculated by the roll over from prior period, plus grants received for the year, less the expenditure incurred to meet the requirements of the grant; which is recognised to revenue.

The DWAF grant apply on refurbishment of existing assets in order to improve the condition and capacity of those assets.

Financial Management Grant

| | | |
|---|-------------|-------------|
| Current-year receipts | 1 250 000 | 1 250 000 |
| Conditions met - transferred to revenue | (1 250 000) | (1 250 000) |
| | - | - |

Conditions met and transferred to revenue (see note 10).

In the main the grant was for capacity building within the municipality and improvements in the financial systems used by the municipality.

Department of Local Government and Traditional Affairs

| | | |
|---|-------------------|-------------------|
| Balance unspent at beginning of year | 19 024 085 | 19 024 085 |
| Current-year receipts | 20 000 000 | - |
| Conditions met - transferred to revenue | (20 000 000) | - |
| | 19 024 085 | 19 024 085 |

Conditions still to be met - remain liabilities (see note 10).

Current Department of Local Government and Traditional Affairs Grant projects are still on going at year end. The balance of this grant is expected to be utilised within the first quarter of the next financial year

The unspent portion of the grant was calculated by the roll over from prior period, plus grants received for the year, less the expenditure incurred to meet the requirements of the grant; which is recognised to revenue.

The grant received is as a result of the support provided by the department on capital projects and conditions were not met, this relates to prior year.

Rural Household Infrastructure Grant

| | | |
|--------------------------------------|------------------|------------------|
| Balance unspent at beginning of year | 4 000 000 | - |
| Current-year receipts | - | 4 000 000 |
| | 4 000 000 | 4 000 000 |

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17. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 10).

Disaster Management Grant

| | | |
|---|------------------|------------------|
| Balance unspent at beginning of year | 5 238 311 | 5 236 880 |
| Current-year receipts | 625 000 | 300 000 |
| Conditions met - transferred to revenue | (145 000) | (298 569) |
| | 5 718 311 | 5 238 311 |

Conditions still to be met - remain liabilities (see note 10).

Current Disaster Management Grant projects are still on going at year end. The balance of this grant is expected to be utilised within the first quarter of the next financial year

The unspent portion of the grant was calculated by the roll over from prior period, plus grants received for the year, less the expenditure incurred to meet the requirements of the grant; which is recognised to revenue.

Grant was to improve on the disaster plans as well as disaster materials.

Provincial Infrastructure Grant

| | | |
|--------------------------------------|------------|------------|
| Balance unspent at beginning of year | 14 006 394 | 14 006 394 |
|--------------------------------------|------------|------------|

Conditions still to be met - remain liabilities (see note 10).

Current Provincial Infrastructure Grant projects are still on going at year end. The balance of this grant is expected to be utilised within the first quarter of the next financial year

The unspent portion of the grant was calculated by the roll over from prior period, plus grants received for the year, less the expenditure incurred to meet the requirements of the grant; which is recognised to revenue.

Grants used to implement capital projects of sanitation in the Project Management Unit to assist with the backlog encountered by the municipality.

Bucket Eradication

| | | |
|--------------------------------------|-----------|-----------|
| Balance unspent at beginning of year | 1 415 538 | 1 415 538 |
|--------------------------------------|-----------|-----------|

Conditions still to be met - remain liabilities (see note 10).

The unspent portion of the grant was calculated by the roll over from prior period, plus grants received for the year, less the expenditure incurred to meet the requirements of the grant; which is recognised to revenue.

The grant was for the sanitation project in erecting VIP toilet and facing out the bucket system, conditions were not met and this relates to the prior years.

Extended Public Works Programme

| | | |
|---|------------------|-------------|
| Current-year receipts | 3 142 000 | 1 000 000 |
| Conditions met - transferred to revenue | (675 709) | (1 000 000) |
| | 2 466 291 | - |

Conditions met and transferred to revenue (see note 10).

EPWP grant is for cleaning roads and patching potholes across the district.

15.15 Rural Roads Asset Management

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| | 2015 | 2014 |
|--|----------------|----------------|
| 17. Government grants and subsidies (continued) | | |
| Balance unspent at beginning of year | 531 976 | - |
| Current-year receipts | - | 1 985 000 |
| Conditions met - transferred to revenue | - | (1 453 024) |
| | 531 976 | 531 976 |

Conditions still to be met - remain liabilities (see note 10).

This grant was used to implement the road master plan for all five local municipality in the district.

15.16 Department of Water Affairs and Forestry - ACIP

| | | |
|---|--------------|-------------|
| Current-year receipts | 30 000 000 | 4 571 597 |
| Conditions met - transferred to revenue | (30 000 000) | (4 571 597) |
| | - | - |

Conditions met and transferred to revenue (see note 10).

Grants relate to capital projects and assisting the infrastructure and project management unit, this grant is a claimable grant that solely depend on the performance of the municipality then the full allocation will be utilised.

15.17 Regional Bulk Infrastructure Grant

| | | |
|---|----------|--------------|
| Current-year receipts | - | 24 419 442 |
| Conditions met - transferred to revenue | - | (24 419 442) |
| | - | - |

Conditions met and transferred to revenue (see note 10).

This grant is a claimable grant that solely depend on the performance of the municipality then the full allocation will be utilised.

15.18 Municipal Water Infrastructure Grant

| | | |
|---|------------------|------------------|
| Balance unspent at beginning of year | 9 367 726 | - |
| Current-year receipts | 1 458 000 | 18 459 000 |
| Conditions met - transferred to revenue | (6 061 710) | (9 091 274) |
| | 4 764 016 | 9 367 726 |

Conditions still to be met - remain liabilities (see note 10).

The grant was introduced to improve on MIG and accelerate capital projects in the municipality.

15.19 Popo Molefe Hall

| | | |
|--------------------------------------|------------------|------------------|
| Balance unspent at beginning of year | 2 254 897 | 2 254 897 |
| | 2 254 897 | 2 254 897 |

Conditions still to be met - remain liabilities (see note 10).

This grant dates back 15years. The municipality is in a process to investigate the grant during the 2013/2014 financial year.

The unspent portion of the grant was calculated by the roll over from prior period, plus grants received for the year, less the expenditure incurred to meet the requirements of the grant; which is recognised to revenue.

The grant was used for the construction of community hall for defend activities.

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17. Government grants and subsidies (continued)

15.20 LG SETA

| | | |
|--------------------------------------|------------------|------------------|
| Balance unspent at beginning of year | 1 308 098 | 930 695 |
| Current-year receipts | 200 555 | 377 403 |
| | 1 508 653 | 1 308 098 |

Conditions still to be met - remain liabilities (see note 10).

Current Municipal Infrastructure Grant projects are still on going at year end. The balance of this grant is expected to be utilised within the first quarter of the next financial year

The unspent portion of the grant was calculated by the roll over from prior period, plus grants received for the year, less the expenditure incurred to meet the requirements of the grant; which is recognised to revenue.

The grant was mainly for capacity building in the municipality and to bridge the skills gap of the whole municipal staff.

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| | 2015 | 2014 |
|---|------------|------------|
| 18. General expenses | | |
| Acess Control | - | 199 720 |
| Advertising | 482 152 | 847 748 |
| Accommodation | 1 023 345 | 1 775 410 |
| Auditors fees | 3 367 357 | 1 081 408 |
| Bank charges | 2 675 640 | 3 442 204 |
| Computer expenses | - | 147 850 |
| Consulting and professional fees | 19 908 415 | 35 743 796 |
| Capacity building | 141 032 | - |
| Events | - | 119 427 |
| Executive Mayors Excellence Award | - | 431 729 |
| Communicators Forum | - | 133 461 |
| Fire Protection Association Assistance | - | 7 250 |
| GRAP Implementation | 169 320 | 1 852 626 |
| Insurance | 1 476 453 | 2 669 686 |
| Imbizos | - | 272 615 |
| Conferences and seminars | 234 889 | 562 324 |
| IT expenses | 208 863 | 718 711 |
| Catering | 5 400 | 5 850 |
| Disaster management services | 2 068 059 | 1 813 426 |
| Marketing | 1 399 616 | 2 159 674 |
| Moral Renewal Programmes | 40 800 | 209 100 |
| Sponsorships | - | 122 811 |
| Levies | 4 276 172 | 3 022 585 |
| Magazines, books and periodicals | - | 773 695 |
| Fuel and oil | 3 274 562 | 4 914 008 |
| Performance Management System | - | 576 160 |
| Subsistence and travelling | 951 963 | 1 224 702 |
| Postage and Telegrams | 3 322 | 4 855 |
| Printing and stationery | 5 150 669 | 2 398 252 |
| Promotional Material | - | 925 751 |
| Protective clothing | 1 703 214 | 1 427 329 |
| Public Participation Programme | - | 1 033 610 |
| Recruitment Costs | - | 265 654 |
| Licencing Vehicles | 466 523 | 431 872 |
| Disludging of conservancy & sceptic tanks | 23 361 907 | 12 562 388 |
| Sports Arts And Culture | - | 314 311 |
| Membership and subscriptions | 23 315 | 778 065 |
| Telephone and fax | 5 990 381 | 6 158 461 |
| Training | 1 103 713 | 2 013 702 |
| Employee Assistance Programme | 114 590 | 205 345 |
| Stakeholder relations | - | 6 000 |
| Job Evaluation | 47 301 | 3 105 476 |
| Drinking Water Quality Management | 196 510 | 1 584 093 |
| Electricity | 3 814 419 | 1 188 541 |
| Sector development programme | 1 533 154 | - |
| Health Services | 202 336 | 649 863 |
| Labour Relations | 176 750 | 504 747 |
| Uniforms | 196 680 | 352 800 |
| Tourism development | 272 490 | - |
| Special Projects | 1 148 355 | 2 059 052 |
| Internet and Satelite Services | 42 224 | 22 921 |
| Led Support fund | - | 3 765 102 |
| Yard Connections Programme | 11 356 857 | 4 754 634 |
| Refreshments | 228 801 | 551 343 |
| Rates and taxes | 557 990 | 960 295 |
| IDP Review | 2 400 | 1 033 288 |
| Detergents | 206 027 | 2 453 794 |
| Compensation Commissioner | - | 1 607 671 |
| Rural Development | - | 2 938 790 |

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| | 2015 | 2014 |
|---|--------------------|--------------------|
| 18. General expenses (continued) | | |
| Sampling And Analysis | 35 663 | 58 868 |
| Strategic Planning | - | 458 141 |
| Water Services | 13 111 254 | - |
| Other expenses | 520 141 | 1 813 487 |
| | 113 271 024 | 123 216 477 |

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19. Employee related costs

| | 2015 | 2014 |
|--------------------------------------|--------------------|--------------------|
| Basic | 167 388 540 | 138 169 025 |
| Inconvenience allowance | - | 79 290 |
| Holiday allowance | 6 310 250 | 6 641 777 |
| Medical aid - company contributions | 14 063 878 | 11 142 718 |
| UIF | 1 301 589 | 1 160 048 |
| 12% allowance | - | 2 882 850 |
| Leave pay provision charge | 18 155 639 | 28 561 570 |
| Post-employment benefits - Pension | 32 251 757 | 25 727 661 |
| Overtime payments | 5 027 060 | 4 098 333 |
| 13th Cheques | 12 243 023 | 9 198 458 |
| Acting allowances | - | 439 480 |
| Vehicle allowance | 14 387 610 | 11 463 581 |
| Housing benefits and allowances | 672 915 | 617 008 |
| Standby allowance | 5 603 253 | 4 673 820 |
| Industrial council | 64 102 | 50 347 |
| Contributions to staff leave accrual | 4 294 619 | 775 340 |
| Cell phone allowance | 145 500 | 162 400 |
| | 281 909 735 | 245 843 706 |

Remuneration of Municipal Manager

| | | |
|---|------------------|------------------|
| Annual Remuneration | 905 136 | 1 118 244 |
| Car Allowance | 225 000 | 257 010 |
| Contributions to UIF, Medical and Pension Funds | 220 014 | 230 000 |
| Other allowances | 207 000 | 247 098 |
| Leave encashed | - | 53 164 |
| | 1 557 150 | 1 905 516 |

Remuneration of Chief Financial Officer

| | | |
|---|----------------|------------------|
| Annual Remuneration | 71 907 | 963 681 |
| Car Allowance | 12 500 | 37 500 |
| Contributions to UIF, Medical and Pension Funds | 17 503 | 212 916 |
| Leave encashed | 76 972 | 34 829 |
| | 178 882 | 1 248 926 |

Senior Manager: Mayor's Office

| | | |
|---|------------------|------------------|
| Annual Remuneration | 858 968 | 762 833 |
| Car Allowance | 248 515 | 248 515 |
| Contributions to UIF, Medical and Pension Funds | 230 046 | 188 565 |
| Other allowance | 12 000 | 12 000 |
| Leave encashed | 138 942 | 32 716 |
| | 1 488 471 | 1 244 629 |

Senior Manager: Business support

| | | |
|---|----------------|------------------|
| Annual Remuneration | 516 690 | 1 335 513 |
| Car Allowance | 1 500 | 18 000 |
| LPO | 124 920 | - |
| Contributions to UIF, Medical and Pension Funds | 7 026 | 15 712 |
| Leave encashed | - | 39 198 |
| | 650 137 | 1 408 422 |

Senior Manager: Corporate Resource Support

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19. Employee related costs (continued)

| | | |
|---|------------------|------------------|
| Annual Remuneration | 945 256 | 834 401 |
| Car Allowance | 168 000 | 168 000 |
| Performance Bonuses | 129 431 | 60 528 |
| Contributions to UIF, Medical and Pension Funds | 218 919 | 185 182 |
| Other allowance | 42 000 | 42 000 |
| | 1 503 606 | 1 290 111 |

Senior Manager: Growth and Economic Development

| | | |
|---|------------------|------------------|
| Annual Remuneration | 880 719 | 898 258 |
| Car Allowance | 144 000 | 60 000 |
| Contributions to UIF, Medical and Pension Funds | 203 563 | 199 051 |
| Other allowance | 120 000 | 54 871 |
| Leave encashment | - | 73 172 |
| | 1 348 282 | 1 285 352 |

Senior Manager: Municipal Health, Fire and Emergency

| | | |
|---|------------------|------------------|
| Annual Remuneration | 859 250 | 882 801 |
| Car Allowance | 144 000 | 60 000 |
| Contributions to UIF, Medical and Pension Funds | 225 429 | 80 249 |
| Other allowance | 120 000 | 50 000 |
| Leave encashment | 42 751 | - |
| | 1 391 430 | 1 073 050 |

Acting Senior Manager: PMU

| | | |
|---------------------|----------------|---|
| Annual Remuneration | 120 680 | - |
| Car Allowance | 32 000 | - |
| Acting allowance | 55 850 | - |
| | 208 530 | - |

Acting position from December 2014 to 30 June 2015

Acting Senior Manager: Technical Services

| | | |
|---------------------|---------------|---|
| Annual Remuneration | 34 960 | - |
| Car Allowance | 12 000 | - |
| Acting allowance | 23 293 | - |
| | 70 253 | - |

Acting position in May 2015

Chief Audit Executive

| | | |
|---|------------------|------------------|
| Annual Remuneration | 955 966 | 851 267 |
| Car Allowance | 82 200 | 82 200 |
| Contributions to UIF, Medical and Pension Funds | 220 019 | 188 807 |
| Other allowance | 90 000 | 90 000 |
| Leave encashed | - | 73 172 |
| | 1 348 185 | 1 285 446 |

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|---|--------------------|--------------------|
| 20. Remuneration of councillors | | |
| Executive Mayor | 986 595 | 745 619 |
| Speaker | 479 283 | 245 479 |
| Medical and Pension fund contributions | 4 744 990 | 6 005 827 |
| Allowance councilors | 1 838 481 | 8 611 974 |
| | 8 049 349 | 15 608 899 |
| 21. Investment revenue | | |
| Interest revenue | | |
| Bank | 217 411 | 195 879 |
| Interest from investment | 1 718 334 | 907 877 |
| | 1 935 745 | 1 103 756 |
| | 1 935 745 | 1 103 756 |
| 22. Depreciation and amortisation | | |
| Property, plant and equipment | 229 414 501 | 236 902 487 |
| Intangible assets | - | 68 923 |
| | 229 414 501 | 236 971 410 |
| 23. Finance costs | | |
| Interest paid | 5 475 087 | 2 012 500 |
| Interest on loan | 1 691 199 | 5 090 492 |
| | 7 166 286 | 7 102 992 |
| 24. Rental of facilities and equipment | | |
| Maintenance: District roads | 3 317 042 | 9 302 565 |
| Maintenance: Water | 38 582 520 | 19 186 036 |
| Maintenance: Buildings | - | 1 904 482 |
| Maintenance: Vehicles | - | 2 785 737 |
| Other repairs and maintenance | 38 816 201 | 1 295 987 |
| | 80 715 763 | 34 474 807 |
| 25. Contracted services | | |
| Security services | 29 079 859 | 10 287 286 |
| Waste water treatment | 2 562 655 | 904 793 |
| Other Contractors | 229 642 | 682 137 |
| | 31 872 156 | 11 874 216 |

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26. Grants and subsidies paid

Other subsidies

| | | |
|--|--------------------|--------------------|
| Grants to local municipalities, Botshelo Water and Municipal Health and Fire | - | 353 785 |
| FMG Grant | 1 362 177 | 1 638 714 |
| Operating Water Grant | 121 320 265 | 18 617 435 |
| Disaster Management Grant | - | 298 569 |
| Rural Transport Services&Infrastructure | 2 716 430 | 1 453 024 |
| Water Supply Assurance & Draught Relief Grant | 116 493 363 | 91 155 520 |
| Group co ID 12 | 7 782 426 | 2 203 704 |
| Other Grants | 6 302 597 | 9 858 113 |
| Lehurutshe water crisis | 2 279 430 | 9 191 378 |
| | 258 256 688 | 134 770 242 |

27. Cash generated from operations

| | | |
|--|-------------------|--------------------|
| Deficit | (306 362 256) | (30 336 843) |
| Adjustments for: | | |
| Depreciation and amortisation | 229 414 501 | 236 971 410 |
| Income from equity accounted investments | (4 987 554) | (4 689 318) |
| Movements in provisions | 3 572 000 | 13 218 000 |
| Changes in working capital: | | |
| Inventories | (7 077 208) | (5 987 832) |
| Receivables from exchange transactions | 1 713 813 | (1 746 086) |
| Payables from exchange transactions | (6 739 298) | 69 800 316 |
| VAT | (6 145 795) | (10 454 180) |
| Unspent conditional grants and receipts | 130 763 545 | 6 162 540 |
| | 34 151 748 | 272 938 007 |

28. Commitments

Authorised capital expenditure

| | | |
|--|--------------------|--------------------|
| Already contracted for but not provided for | | |
| • Property, plant and equipment | 772 574 114 | 335 182 412 |

Total capital commitments

| | | |
|---|--------------------|--------------------|
| Already contracted for but not provided for | 772 574 114 | 335 182 412 |
|---|--------------------|--------------------|

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

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29. Contingencies

Monarch Security VS the Municipality R 4 451 001 R 4 451 001

This matter started in 2009 wherein the municipality is being sued for termination of services. The service provider wants to compel the municipality to reinstate their services. Attorneys have served documentation with regard to irregular proceedings.

JY GUTTA VS the Municipality R 2 235 379 R 2 235 379

Matter started in 2011, summons were received where the Municipality is being sued for damage of property due to the fire during a cleaning campaign commemorating Mandela day. The matter is currently under dispute and the necessary pleading have been filed.

Portia Semenya VS the Municipality R 3 000 000 R 3 000 000

The matter started in 2012 wherein Ms Semenya is suing the municipality for defamation of character. The municipality appointed external attorneys to defend the matter on its behalf. Currently the matter is still pending.

Gwabeni VS the Municipality R 2 021 184 R 2 021 184

Matter started in 2011 wherein Mr Gwabeni sued the municipality for outstanding term payment and legal fees (for alleged criminal case).

Mapitsi Civil works VS the Municipality R 583 722 R 583 722

Letter of demand was issued the claim was based on the retention amount of R583 722 a due diligence assessment was conducted to determine whether the contractor has successfully completed the scope of work. An opinion was rendered by our attorneys who made a recommendation of settling the matter.

Iwyze Valuables Insurance R 125 038 R 125 038

We received letter of demand from Mr Keebine's attorneys, due to damages on his vehicle when there were riots in Lehurutshe. Our investigation confirmed that riots were as a result of Lehurutshe residents demanding services from the municipality. The matter has been stagnant.

M Santo VS the Municipality R 5 731 R 5 731

Mr Santo was suing the municipality for damages caused to his vehicle due to the pothole on 1st Street. Currently he was advised to seek three (3) quotations and expert affidavit explaining the extent of the damages.

Balemi Civils VS the Municipality R 2 867 984 R 2 867 984

Summons have been received, notice of intention to be served and filed. Second defendant entered a notice to remove causes of complaint.

Microzone CC VS the Municipality R 871 850 R 871 850

A letter of demand was received and the matter was referred to our attorney to defend on the municipality's behalf. Currently the matter is still pending.

Swathi Civils VS the Municipality R 1 563 657 R 1 563 657

Swati Civils sought to give summary judgement application against the municipality for damages due to termination of contract. The matter has been removed from the court roll by agreement between parties.

Paul Rabotapi VS the Municipality R 15 553 R 15 553

Letter of demand was received by the municipality claiming damages caused to Mr Rabotapi's vehicle which was damaged

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29. Contingencies (continued)

due to the pothole on 1st Street. No further pleadings have been filed. The matter is stagnant.

JJG Construction (Pty) Ltd & Khethayo Construction VS the Municipality R NIL R 3 542 447

The matter started in 2012 wherein the service provider claimed outstanding payment for work done as per the certificate issued by the contractor. JJ Construction sued the Municipality for an amount of R 3 542 447. Currently the matter has been settled in full.

Virtual Consulting Engineers VS the Municipality R NIL R NIL

The municipality received a letter alleging that there were outstanding payments with regard to the invoice from Virtual Consulting Engineers worth R2 840 065. The attorney acting on behalf of the municipality was instructed to negotiate a settlement to the amount of R2 500 000.

Botshelo Water Claim R75 443 509 R 75 443 509

Botshelo Water submitted a claim for R 75 443 509 (2012: R 39 915 524) in respect of bulk water supply to Distobotla Local Municipality, Ngaka Modiri Molema (Eastern) and Motswedi areas. The municipality disputed the claim and the two parties reconciled the claims. The matter has been resolved and the municipality has raised a provision for the water service provider at year end.

Van Staden & Associates R NIL R NIL

During 2011 the municipality received summons from Van Staden and Associates CC for failing to honour and invoice for service rendered to amount of R24 221. Matter now settled.

King and Associates R 3 118 310 R 3 118 310

The municipality received a grievance letter from the service provider's attorneys requiring the Municipality to re-instate their client to continue with their services (Water supply: NMMMD/09/10/14). No correspondence has been received or further action taken (the matter has been stagnant).

Batlhalefi Projects R 17 722 191 R 17 722 191

The municipality received invoices for work purported to be done by Batlhalefi Projects on First Street. Due to the payments exceeding the allocated budget the Municipality appointed a forensic investigator to investigate into the allegations (First Street-Queckwin Projects). The matter has since been stagnant.

Black Empowered Youth Enterpreneurs R NIL R NIL

Parties confirmed settlement agreement and was made an order of the court on the 29th July 2011 however the outstanding fees were for the bill of cost for taxation in favour of Black Empowered Youth Enterpreneurs' Attorney R28 687.

D Tsholetsane R NIL R NIL

Parties have reached an agreement outside the court perimeters. Matter is finalized.

Big Eye Investment R NIL R NIL

Parties have reached an agreement outside the court perimeters. Matter is finalized.

Geldenhyus et al * R 201 341 200 R 201 341 200

There was a court order compelling the Municipality to comply with conditions of the water license agreement for the abstraction of water from the Geldenhyus underground water supply on their farm. Geldenhyus was awarded a costs order which followed the court order. The dispute went into arbitration and Geldenhyus is claiming an amount of R 201 341 200. The arbitration is still pending. On the other hand the Municipality have approached the High Court of South Africa in Mahikeng to nullify the license agreement. The matter is still pending.

Neo Mphala Utility Services R 4 209 510 R 4 209 510

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29. Contingencies (continued)

The matter started in 2012 wherein the Municipality was served with a letter of complaint regarding school sanitation project in Tswaing. Amongst others the complaint included request for payment of R4 209 510(damages).

Telkom LTD

R 98 515 R 184 557

Summons have been received wherein the municipality is being sued for installation of underground water pipes which are said to have caused damage to the Telkom underground cables in various areas around the district.

Women In Supply

R 1 500 000 R 1 500 000

The matter started July 2012 after the municipality instructed the service provider to remove its vehicles from the construction site as per site instruction number 2638. A notice of motion was served and subsequently the matter was referred to our external attorneys to defend and currently record of proceedings has been filed by our Attorney.

Pienaar panelbeaters

R NIL R NIL

The matter started in December 2012 wherein the municipality was being sued for an amount of R980 767 for repairs and storage of municipal vehicles. The Municipality negotiated possible settlement and currently the matter was settled in June 2013 in full and final settlement of R 105 000.

Mowana consultants

R 5 886 214 R 5 886 214

The matter started in June 2012 wherein the municipality was served with summons claiming the amount of R5 886 214 for professional services for the sanitation project. This project was for the construction of VIP toilets for Lomanyaneng and Majemantsho.

La Dira Trading 03 CC

R 756 924 R 756 924

We received summons and we have appointed the attorneys who have filed an intention to defend. Currently the attorneys acting on behalf of La Dira Trading 03 CC filed an application for summary judgement, our attorneys then filed an application to oppose same with a possibility of having a counter claim.

Panchia

R 51 080 R 51 080

We received letter of demand from the attorneys of Ms Panchia alleging monies owed for damages on the leased property. The matter is still pending and attended to.

Mvula Trust VS the Municipality *

R 821 702 R 821 702

Mvula Trust instituted a claim against the Municipality in respect of services they alleged to have rendered for Phase 2 and Phase 3 of the School Sanitation Project. They claimed the sum of R 821 702 at the rate of 15.5% per annum tempora morae until date of payment thereof. The Municipality paid Mvula Trust an amount totalling R 1 625 927 in respect of Phase 1 of the project which was made in error due to Mvula Trust's misrepresentation.

Atlie Projects VS the Municipality

R 3 196 312

The Municipality was sued in January 2013 for wrongful termination of contract. The matter is currently under arbitration.

MZA Consulting Engineers Pty (Ltd)

R 428 555

MZA Consulting Engineers are claiming services rendered to the capital amount of R 428 555.

ICAS Employees and Organization Enhancement services SA Pty (Ltd)

R 57 994

On the 29th of January 2014 the service provider served and issued summons, in the Magistrate's Court for the district of Mafikeng, against the Municipality for the payment of the amount of R 57 994.

Batho M & E Consultants CC JV

R 2 921 427

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29. Contingencies (continued)

On the 21st of October 2013 Batho M & E Consultants issued out a notice in terms of the Institution of Legal Proceedings against certain organs of the state, in which they claimed an amount of R 1 654 247 for services rendered. The amount remained unpaid and the service provider continued to render services. The basis for the R 1 654 247 not being paid was because the service provider and the Municipality had a dispute concerning the invoice amounts. Altogether outstanding invoices amounted to R 2 921 427.

Fastcon Tlotlo-Tlhago JV

R 8 433 841

Fastcon Tlotlo-Tlhago JV issued out invoices to the amount of R8 413 841 after having served the municipality with a notice of termination of the project (Water Reticulation in Bodebe Ward 17). However the Municipality disputed the invoices submitted.

T.H.D Ramphela

R 6 077 544

Mr Ramphela was the Municipal Manager of the Municipality from 2006-2009. He was dismissed and approached the labour court for his reinstatement or alternatively, payment of the balance of his employment contract. The matter was settled but Mr Ramphela disputed the validity of the settlement agreement.

Khethwayo Construction

R 2 275 960

Khethwayo Construction is suing the Municipality for damages for the cancellation of the contractual agreement in which they were appointed to build VIP toilets in the Ramotshere Moila Rural Sanitation Programme. The notice of motion states that Khethwayo intends to order the Municipality to pay three alternative amounts. The highest alternative amount is R 2 275 959.

Labour Related Matter

R 2 661 000

The Municipality currently has pending labour related disputes at the South African Local Government Bargaining Council and Labour Court. The estimated settlement amounts that the Municipality could pay in respect of these matters is R2 661 000.

* These items were restated for the prior period because information became available in the 2014 financial period which provided evidence of conditions that existed at the end of the 2013 period.

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29. Contingencies (continued)

Contingent assets

Tshenolo Resources JV

R 11 228 364

The Municipality is suing for additional payments made in respect of the tender awarded to Tshenolo Resources JV.

Bagorosi Civil Projects and Engineers

R 691 850

The Municipality is suing for additional payments made in respect of the tender awarded to Bagorosi Civil Projects and Engineers.

Khethwayo Construction

R5 498 434

The Municipality is suing for additional payments made in respect of the tender awarded to Khethwayo Construction amounting to R 5 498 434.

South African Municipal Workers Union (SAMWU)

R 94 093

The amount of R 87 352 is as a result of punitive costs in the case of SAMWU vs the Municipality.

Mvula Trust VS the Municipality*

R 1 625 928 R 1 625 928

Mvula Trust accepted the offer to build toilets in respect of the School Sanitation Project. It was further an expressed and/or implied term that Mvula Trust would be paid for the toilets built as confirmed monthly by submitting a certificate and invoice. Mvula Trust failed to complete any of the toilets, however they submitted invoices totalling R 1 625 927 in respect of Phase 1 of the project which was made in error due to Mvula Trust's misrepresentation.

NEP and Mosegi Engineers as a Joint venture

R 4 639 457

The Municipality is claiming an amount of R 4 639 4573 from the Joint venture (NEP and Mosegi) for items omitted on the design and bill of quantities in the tender document concerning the construction of Ottosdal New Waste Water Treatment Plant.

* These items were restated for the prior period because information became available in the 2014 financial period which provided evidence of conditions that existed at the end of the 2013 period.

30. Related parties

Relationships

Members of key management and councillors

Refer to note 19&20

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31. Prior period errors

Statement of financial position

| | |
|---------------------------------|-------------------|
| Property, plant and equipment | - 1 485 431 170 |
| Increase in accumulated surplus | - (1 485 431 170) |
| Increase in inventory | - 7 544 562 |
| Increase in accumulated surplus | - (7 544 562) |
| Decrease in provisions | - 5 514 575 |
| Increase in accumulated surplus | - (5 514 575) |
| Increase in receivable | - 6 693 113 |
| Increase in accumulated surplus | - (6 693 113) |
| Increase in creditors | - (178 355 399) |
| Decrease in accumulated surplus | - 178 355 339 |

The following prior period error corrections were done for the 2013/14 financial year:

Property, plant and equipment

The cost and accumulated depreciation of Property, Plant and Equipment was restated. The comparative amounts have been restated to R4 923 441 715.

Inventory

The cost of inventory at year-end was restated to the figure as per the trial balance as no evidence could be provided for the figure disclosed in the prior year AFS. It was restated to R23 408 683

Receivables

Prior year balance was restated to reflect balance agreeing to the trial balance.

Provisions

Prior year provision for Botshelo Water and Long service award could not be supported by any evidence. The provision therefore had been restated to reflect valid provision for long service award of R8 733 000. Botshelo/Sedibeng water provision was not a valid provision

Payables

Prior year payables were restated and the major increase was due to Sedibeng Water debt.

32. Risk management

Financial risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Market risk

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32. Risk management (continued)

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

33. Going concern

These annual financial statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least 12 months.

34. Unauthorised expenditure

| | | |
|--|--------------------|-------------------|
| Opening balance | 66 712 142 | 53 781 315 |
| Unauthorised expenditure: current year | 406 870 816 | 12 930 827 |
| | 473 582 958 | 66 712 142 |

Unauthorised expenditure for the current year relates to the following expenditure categories:

| | | |
|-------------------------|--------------------|----------|
| Employee related costs | 4 684 737 | - |
| Depreciation | 122 365 270 | - |
| Finance cost | 4 166 286 | - |
| Contracted services | 14 477 156 | - |
| Transfers and subsidies | 240 705 135 | - |
| General expenses | 20 472 232 | - |
| | 406 870 816 | - |

35. Fruitless and wasteful expenditure

| | | |
|--|------------------|---------------|
| Opening balance | 37 322 | 37 322 |
| Fruitless and wasteful expenditure: current year | 3 387 245 | - |
| | 3 424 567 | 37 322 |

36. Irregular expenditure

| | | |
|---|--------------------|--------------------|
| Opening balance | 345 810 366 | - |
| Add: Irregular Expenditure - current year | 55 757 677 | 345 810 366 |
| | 401 568 043 | 345 810 366 |

Details of irregular expenditure: prior year

| | | |
|---|-------------------|--------------------|
| Deviation from SCM Regulation | 55 757 677 | - |
| Expenditure | - | 185 680 881 |
| Expenditure: Consultants | - | 99 168 006 |
| Expenditure for transactions above R200 000 | - | 38 253 324 |
| Variation orders | - | 22 708 154 |
| | 55 757 677 | 345 810 366 |

Details of irregular expenditure - current year

| | |
|-------------------------------|-------------------|
| Deviation from SCM Regulation | 55 757 677 |
| | <u>55 757 677</u> |

Disciplinary steps taken/criminal proceedings

Awaiting MPAC investigation

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37. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

| | | |
|----------------------------|-----------|-----------|
| Amount paid - current year | 3 367 357 | 1 137 211 |
|----------------------------|-----------|-----------|

PAYE and UIF

| | | |
|---------------------------------|--------------|--------------|
| Current year subscription / fee | - | 31 765 916 |
| Amount paid - current year | (36 698 218) | (29 288 386) |
| | (36 698 218) | 2 477 530 |

Pension and Medical Aid Deductions

| | | |
|---------------------------------|--------------|--------------|
| Current year subscription / fee | - | 53 824 563 |
| Amount paid - current year | (46 309 181) | (53 945 632) |
| | (46 309 181) | (121 069) |

VAT

| | | |
|----------------|-------------|-------------|
| VAT receivable | 161 378 714 | 155 232 919 |
|----------------|-------------|-------------|

VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted throughout the year.

38. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the financial statements.

Infrastructure assets were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.